

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

REVIEW REPORT
OF
BUREAU OF MOTOR VEHICLES COMMISSION
STATE OF INDIANA

July 1, 2002 to June 30, 2003



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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chairman	Mr. Gerald B. Coleman	01-07-02 to 02-29-04
	Ms. Mary DePrez	03-01-04 to 01-10-05



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF BUREAU OF MOTOR VEHICLES COMMISSION

We have reviewed the receipts, disbursements, and assets of the Bureau of Motor Vehicles Commission for the period of July 1, 2002, to June 30, 2003. Bureau of Motor Vehicles Commission's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Bureau of Motor Vehicles Commission are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations (except as stated in the review comments).

STATE BOARD OF ACCOUNTS

June 24, 2004

BUREAU OF MOTOR VEHICLES COMMISSION
REVIEW COMMENTS
June 30, 2003

CREDIT CARD PROCESSING FEES

As stated in our seven prior audit reports (most recently B19250 and B19232), the Bureau of Motor Vehicles Commission has entered into contracts with a credit card vendor and with a credit card company and pays transaction processing fees. The Commission does not collect these fees from the persons using credit cards, as required by statute and administrative code.

IC 6-6-5-9 states in part: "The bureau may contract with a bank card or credit card vendor for acceptance of bank or credit cards. However, if there is a vendor transaction charge or discount fee, whether billed to the bureau or charged directly to the bureau's account, the bureau shall collect from the person using the card an official fee that may not exceed the highest transaction fee or discount fee charged to the bureau by bank or credit card vendors during the most recent collection period. This fee may be collected regardless of retail merchant agreements between bank and credit card vendors that may prohibit such fee. The fee is a permitted additional charge under IC 24-4.5-3-202."

The credit card handling service charge is further addressed in 140 IAC 8-3-7 as: "(a) the credit card handling service charge is the service charge for which all license branches shall charge for the processing and handling of credit card sales of all license branch transactions. (b) The credit card handling service charge for each credit card slip used shall not exceed five dollars (\$5). (This will be for the total sale listed on each credit card slip used, regardless of the number of individual transactions purchased at that time.) (c) All amounts collected under this section shall be deposited in the state license branch fund."

FIXED ASSET INVENTORY

As stated in our eight prior audit reports (most recently B19250 and B19232), the Bureau of Motor Vehicles Commission has not conducted an annual physical inventory of fixed assets. In addition, as stated in our prior four reports, the Commission's fixed asset inventory listing is not complete as to additions and retirements.

Each state agency is required to maintain an asset control system at the agency for assets costing \$500 or more. Assets at the minimum level of \$500 must be tagged. Agencies must also maintain a record of all additions and retirements to their asset control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 10)

Once a year, after receiving a Fixed Asset Master Listing, a physical inventory is to be taken and compared to the Master Listing and the agency's listing of assets from its asset control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 10)

SPECIAL DISBURSING OFFICER FUND RECONCILIATIONS

As stated in our two prior audit reports (B19250 and B19232), the Bureau of Motor Vehicles Commission has not performed reconciliations of its Special Disbursing Officer (SDO) checking account or advance in a timely manner. The checking account reconciliations for the SDO account were only performed in conjunction with a special project assigned to temporary staff. Monthly reconciliations from 2002 were performed in late 2003. At the time of our review in May 2004, reconciliations had not been performed since January 2004, as the temporary staff was no longer assigned. Reconciliations of the SDO advance have not been performed since June 2000, even though a theft of these funds was identified in January 2002. We identified the following with respect to the prior shortage and theft:

BUREAU OF MOTOR VEHICLES COMMISSION
REVIEW COMMENTS
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(Continued)

- As of May 2004, the prior SDO checking account was not closed.
- Agency revenue of \$10,000 was used to open the new checking account in 2002, and has not been returned.
- The total bond proceeds to cover the theft of SDO funds, of \$52,354.71, were deposited into the SDO bank account. However, the full amount was not owed to the checking account, as the theft included fraudulent reimbursements to the checking account. We calculated that at March 2002, \$8,073.71 was necessary to balance the checking account, leaving \$44,281 of bond proceeds owed to the state.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. At all times, the unreimbursed disbursements plus any advances to office cash or subsidiary checking accounts plus the SDO checking account balance must equal the local purchase advance. (Accounting and Uniform Compliance Guidelines Manual, Chapter 7)

The Special Disbursing Officer is accountable at all times for all sums advanced. The SDO officer may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual, Chapter 7)

FINANCIAL REPORTING TO COMMISSION

IC 9-15-2-1 (4) requires the Commission to: "Review, revise, adopt, and submit to the budget agency budget proposals for the commission, the bureau, and the license branches operated under IC 9-16, including the budget required by IC 9-16-3-3." IC 9-14-2-1 (4) also requires the Bureau to "Submit to the commission, before September 1 of each year, budget proposals for the bureau, including license branches staffed by employees of the commission under IC 9-16." However, the budgets are not submitted to the Commission for approval.

Financial reports to the commission were incomplete for the entity. Financial reporting was limited to the state license branch fund, established under IC-9-29-14. As such, the total financial activity for the license branches was not reported. IC 9-16-1-2 states that: "The commission shall operate or be responsible for the administration of all license branches in Indiana under this article." Financial reports that include all collections and distributions by fund type should be prepared.

INTERNAL CONTROL OVER LICENSE BRANCH DEPOSITS

The Bureau of Motor Vehicles Commission does not have procedures in place to detect missing deposits from its accounts, or shortages in branch accounts in a timely manner. Central office procedures are only established to identify this on an annual basis, upon audit, and rely upon license branch managers to identify errors prior to that.

Procedures are not in place to detect missing license branch transfers to the central office in a timely manner. Daily bank information appears designed to indicate those branches with no deposits. However, this is not reviewed or questioned. Also, there is no financial analysis performed in order to identify or question reduced deposits.

BUREAU OF MOTOR VEHICLES COMMISSION
REVIEW COMMENTS
June 30, 2003
(Continued)

There is no review or comparison to verify the accurate receipt of bank transfers that are conducted through a bank subcontractor. License branches contact a bank subcontractor with their batch totals to transfer to each of four state bank accounts. The subcontractor then communicates these bank transfers to the state's bank. Each day, the subcontractor's transaction reports are available for BMV to download. The internal audit section periodically downloads the reports into a data base. The subcontractor information, however, is not compared to the actual bank deposits.

On a monthly basis, the deposit data base information is compared to the batch invoices that have been received and accepted by the central office. We were informed that the program has a logic flaw in that it is only searching for the deposited batch information, and will not identify a batch that had no deposit. The monthly comparisons also do not provide assurance that all batch invoices submitted by the license branches were received and accepted by the operations units. The comparison performed produces variance reports. These are not reviewed by finance or internal audit, but are made available for license branch managers to use. At times, these monthly reports were not made available to managers until three to four months later.

We were unable to verify deposits for March 2003. Deposit information for March and April 2003 was not downloaded in a timely manner. As a result, an alternative source had to be used and data base information remains incomplete or inaccurate for the period March 11 to April 17, 2003.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

LICENSE BRANCH INVENTORY

License branches maintain inventory of items for sale, such as license plates and renewal stickers. Procedures were not in place to detect inventory shortages or discrepancies in a timely manner. The branch operating system (BOSS) does not maintain perpetual inventory records, in order to identify balances that should be on hand. A monthly branch inventory is to be taken; however, there is no information to compare it to.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

CONTROL OF UNDISTRIBUTED BALANCES

The license branches transfer their collections to three state accounts: the county bank account authorized by IC 6-6-5-9, the watercraft and state holding fund/center accounts. Later, various computer system reports are run in order to distribute the funds to the counties, or to transfer the watercraft and state funds to the proper state funds. The balances held in the state holding, watercraft holding and county bank account are not compared to the subsidiary records in the system. As such, a shortage would go undetected. Reports or information necessary to facilitate such a comparison have never been prepared.

BUREAU OF MOTOR VEHICLES COMMISSION
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(Continued)

Each agency is responsible for maintaining an effective and accurate accounting system for subsidiary and supplementary records. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. If reconciled bank or Auditor's balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

RECORDS OF BANK ACCOUNTS HELD

The BMV central office did not maintain a complete listing or records of the central office bank accounts, or a list of the branch bank accounts. A list was developed in 2004 at the request of a contracted CPA firm. During our review, we found two open bank accounts that were omitted from the list. Copies of signatory cards for the accounts were not available. Records of bank accounts established should include a comprehensive history list, and maintenance of bank agreements and signatory authorizations.

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

BAD CHECK FUND

A checking and investment account is maintained by the central office in order to process and collect for checks that were returned to license branch accounts as insufficient funds. The account is entitled check reimbursement fund account, or commonly referred to as the bad check fund. We found conditions of weak controls and a lack of accountability and safeguarding of funds. By March 2004, a balance had accumulated in the account of \$2.5 million. While transaction activity was occasionally reported to the Commission, the balance held was not reported.

The account balance accumulated from bad check fees collected that are not reported or remitted to the Treasurer or Auditor of State. The process is described as follows: Checks returned to license branch accounts as insufficient funds are replaced by the branches by writing a check from the bad check fund. Branches throughout the state have supplies of the bearer paper (checks that do not require a signature). The bad check information is then forwarded to the central office for their collection. If the central office does not recover the bad check amount, plus fees, the license and transactions are suspended. Reinstatement fees collected are remitted to the state treasury. The central office collections of bad check fees are retained in the account. The account balance is used to cover for the uncollected bad checks. These transactions are not accounted for in the official records of the agency, as maintained on the state accounting system.

The account was not considered as safeguarded since the check stock does not require signatures, and the account had no dollar limit in place for the use of a check. Also, the central office check stock supply was stored in an unlocked cabinet.

IC 5-13-6-1(b) states in part: ". . . all public funds . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

BUREAU OF MOTOR VEHICLES COMMISSION
REVIEW COMMENTS
June 30, 2003
(Continued)

FUNDS OWED TO STATE FROM COUNTY ACCOUNT

County excise taxes collected by license branches are deposited into a separate bank account, administered by the Bureau of Motor Vehicles, in accordance with IC 6-6-5-9. Refunds of excise taxes are issued from the Bureau of Motor Vehicles fund/center 3010/123500. Subsequently, checks are issued from the county bank account to reimburse the Bureau of Motor Vehicles. In May 2004, we found that \$5,085,491 was owed to the state account, as the refunds were not repaid for the period January 1, 2003, to April 30, 2004. Subsequent to our inquiry, \$3,415,837 was paid to the state account on May 20, 2004. The balance was paid on July 7, 2004.

IC 4-10-11-3 states: "In the accounting for moneys expended, the items of the appropriation act shall be literally followed and in no case shall moneys appropriated for one (1) specific purpose be diverted for the purposes of another." The Bureau's fund/center should be reimbursed in a timely manner in order to accurately report the balance of the fund.

The agency has the responsibility for recording and submitting documents prepared as input to the Auditor of State's accounting system. The proper utilization of the state system includes the objectives of: timely submission of documents; proper classification of the transaction; recording of accurate amounts; and verification of correct posting to reports. (State Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

BANK ACCOUNT RECONCILIATIONS AND STATEMENTS

Bank reconciliations for the five central treasury depository bank accounts are not formally documented. The accounts are maintained for the county excise, state, watercraft and commission holding accounts, and a transfer adjustment account. For the five bank accounts, twenty-six bank statements were missing for the twenty months reviewed. BMV obtained copies of these statements at our request.

Another bank account maintained for the bad check fund, had not been reconciled since August 2003 at the time of our review in March 2004.

For funds outside the state's system, the governmental unit must maintain appropriate accounting records and controls. This includes performing monthly bank statement reconciliations. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

Documents should be retained in accordance with a retention schedule approved by the Oversight Commission on Public Records. Also, documents must be filed in such a manner as to be readily retrievable or otherwise reasonably attainable, upon request, during an audit. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

INTERNAL CONTROL OVER CONTRACT PAYMENTS

Our prior report (B19250) included findings of disbursement internal control weaknesses for not having a payment approval process in place to ensure payments are reviewed by the responsible agency official prior to payment by the Auditor's office, and that there were insufficient segregation of duties between preparing claims, and receiving and mailing warrants to vendors for payments they initiated.

BUREAU OF MOTOR VEHICLES COMMISSION
REVIEW COMMENTS
June 30, 2003
(Continued)

During our review we also noted the following conditions concerning the controls over the receipting, disbursing, recording, and accounting for financial activities of the Bureau of Motor Vehicles Commission:

- (1) Duties were not sufficiently segregated between the ordering and receipt of goods or services. The same staff had access to ordering goods and services, and indicating the receipt or internal approval to pay vendor invoices. While this condition existed, contract information was limited as the accounts payable section was not provided with copies of contracts.
- (2) Duties were not sufficiently segregated in the accounts payable section, as the same staff had duties of preparing claim vouchers, posting agency records of payments issued, and until January 2004, had access to use the Controller's signature stamp to formally approve payment of the claim vouchers. They also then received and mailed the warrants to vendors for the payments they initiated.
- (3) Staff prepared state claim payments without vendor invoices for certain types of contracts, such as rent and contracted branch operations. This occurred even though the staff was not provided with contract copies.
- (4) The Bureau of Motor Vehicles accounting records of payments issued were not in balance with the official records of the disbursements issued by the Auditor of State. As such, errors or irregularities would not have been detected in the normal course of business.
- (5) There were no written procedures or evidence as to verifications performed in order to approve contract payments. Such procedures would include: comparing invoiced rates to the contract rates; evidencing a certification of receipt of goods or services by the staff with direct knowledge and responsibility; verifying mathematical accuracy of the vendor invoice; checking agency records of processed claims to ensure it was not previously paid, and verifying that the total contract payment would not exceed the maximum allowed by the contract. A checklist form would serve to evidence such procedures.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

Each agency is responsible for maintaining an effective and accurate accounting system for subsidiary and supplementary records. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. If reconciled bank or Auditor's balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

BUREAU OF MOTOR VEHICLES COMMISSION
REVIEW COMMENTS
June 30, 2003
(Continued)

CONTRACT OVERPAYMENT

We found that a lease was overpaid by \$10,364 in January 2003. This was a duplicate payment of a months rent and retroactive increases for remodeling. The claim was calculated by staff without requiring vendor invoices. BMV contacted the lessor who issued a repayment. (See Summary, Page 23)

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

DISBURSEMENT DOCUMENTATION

Several disbursements were observed which did not contain adequate supporting documentation. Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established. The findings are described below:

- Twenty-one of twenty-two contract disbursements reviewed were not evidenced as approved for payment. It had been a practice to only apply the authorized signature to the top claim in a batch. Also, the agency copies retained were made prior to applying the approval signature.
- Twelve of twenty-two contract disbursements reviewed did not contain evidence that the goods or services were received.
- One of twenty-two contract disbursements reviewed did not have documentation. The payment issued was for \$20,612.47.
- One contract of twenty-three selected for review was not provided.
- We could not ascertain if payments were made consistent with the terms of two contracts as supporting records were not retained for audit. These were for credit card volume charges and postage machine rentals that referenced prices per an October 2000 catalog that was not documented.
- During the fiscal year ended June 30, 2003, there were no contracts or purchase orders in place for three contractors that were paid for license branch security and floor mat cleaning. The security cost for that year is estimated at \$34,000. A contract with that firm was entered into as of November 1, 2003. The commission contracted one vendor for statewide floor mat rental and cleaning on June 1, 2004, for \$100,000 annually.

Supporting documentation such as receipts, cancelled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

IC 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing.

BUREAU OF MOTOR VEHICLES COMMISSION
REVIEW COMMENTS
June 30, 2003
(Continued)

PROCUREMENT PROCEDURES

The largest contract of the Bureau of Motor Vehicles Commission is for bank and credit card servicing. Over six million dollars had been disbursed to this vendor during the period July 1, 2002, to March 1, 2004. The contract was first issued based upon a request for proposals in March 1998. This contract, with extensions, expired April 30, 2003. The next contract was signed August 18, 2003, with a new rate structure. The contract was entered into without applying proper procurement procedures.

"The procedural requirements for the procurement of equipment, materials, goods, and services or the lease of equipment shall include the giving of notice and competitive sealed bidding." [140 IAC 8-2-4(a)] Competitive sealed proposals can be obtained "when the commission chairman makes a written determination that the use of competitive sealed bidding is either not practicable or not advantageous to the state." [140 IAC 8-2-4(d) (1)]

"The commission, or its duly authorized procurement agent, hereinafter referred to collectively as purchaser, shall comply with the procedural requirements of this procurement system whenever the total amount of any procurement of equipment, materials, goods, or services exceeds seventy-five thousand dollars (\$75,000), or the total annual rental payment under any equipment lease exceeds twenty-five thousand dollars (\$25,000)." [140 IAC 8-2-3(a)]

TRANSFER BANK ACCOUNT

A transfer bank account was established in order to transfer funds between license branch bank accounts. We observed that this occurred upon opening new license branch bank accounts, to correct errors made in recording state deposits, and to transfer deposits for which the batch processing work was transferred to another branch. A total of \$881,000 was transferred between accounts during the period July 1, 2002, to April 30, 2004.

All duties related to this bank account were performed by one staff member without review. The duties included: performing transfers, entering transfer descriptions as reported on the bank statements, communicating transfers to branch managers, and receiving and reviewing bank statements.

Our review of the bank account disclosed that: requests to initiate transfers do not require a manager's signature; records are incomplete as the actual transfer performed by the bank is not evidenced; requests for transfer could not be located for four transfers made; and no register was maintained of the account transactions or balance.

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

Public records, financial statement information and supporting information generated through a computer system should be printed out on paper, printed to disk or maintained on-line at the end of each reporting year and retained for audit. Information must be maintained in a manner that will allow access for audit and public inquiry on equipment of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual, Chapter 16)

BUREAU OF MOTOR VEHICLES COMMISSION
EXIT CONFERENCE

The contents of this report were discussed on September 22, 2004, with Ms. Mary DePrez, Commissioner; and Mr. Bart Brown, Chief Financial Officer. The official response has been made a part of this report and may be found on pages 13 to 22.

RESPONSE TO
REVIEW REPORT
OF
BUREAU OF MOTOR VEHICLES COMMISSION
STATE OF INDIANA
July 1, 2002 to June 30, 2003

BUREAU OF MOTOR VEHICLES COMMISSION
REVIEW COMMENTS
June 30, 2003

CREDIT CARD PROCESSING FEES

As stated in our seven prior audit reports (most recently B19250 and B19232), the Bureau of Motor Vehicles Commission has entered into contracts with a credit card vendor and with a credit card company and pays transaction processing fees. The Commission does not collect these fees from the persons using credit cards, as required by statute and administrative code.

Indiana Code 6-6-5-9 states in part: "The bureau may contract with a bank card or credit card vendor for acceptance of bank or credit cards. However, if there is a vendor transaction charge or discount fee, whether billed to the bureau or charged directly to the bureau's account, the bureau shall collect from the person using the card an official fee that may not exceed the highest transaction fee or discount fee charged to the bureau by bank or credit card vendors during the most recent collection period. This fee may be collected regardless of retail merchant agreements between bank and credit card vendors that may prohibit such fee. The fee is a permitted additional charge under IC 24-4.5-3-202."

The credit card handling service charge is further addressed in 140 IAC 8-3-7 as: "(a) the credit card handling service charge is the service charge for which all license branches shall charge for the processing and handling of credit card sales of all license branch transactions. (b) The credit card handling service charge for each credit card slip used shall not exceed five dollars (\$5). (This will be for the total sale listed on each credit card slip used, regardless of the number of individual transactions purchased at that time.) (c) All amounts collected under this section shall be deposited in the state license branch fund."

BMV Response: Several factors make it impractical for the BMVC to collect any fees on credit card transactions. The most compelling argument is that the BMVC can not always accurately calculate the exact fee charged by credit card vendors. With the current pricing schedule and discounts calculated after the sale is completed, the possibility exists that the BMVC could charge more than the actual credit card vendor fee. This would harm the customer and would not be cost effective to correct. The BMVC does not suffer a financial hardship from the lack of these surcharges.

FIXED ASSET INVENTORY

As stated in our eight prior audit reports (most recently B19250 and B19232), the Bureau of Motor Vehicles Commission has not conducted an annual physical inventory of fixed assets. In addition, as stated in our prior four reports, the Commission's fixed asset inventory listing is not complete as to additions and retirements.

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Once a year, after receiving a Fixed Asset Master Listing, a physical inventory is to be taken and compared to the Master Listing and the agency's listing of assets from its asset control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 10)

BMV Response: We concur with the SBA findings and will take necessary action to correct.

SPECIAL DISBURSING OFFICER FUND RECONCILIATIONS

As stated in our two prior reports (B19250 and B19232), the Bureau of Motor Vehicles Commission has not performed reconciliations of its Special Disbursing Officer (SDO) checking account or advance in a timely manner. The checking account reconciliations for the SDO account were only performed in conjunction with a special project assigned to temporary staff. Monthly reconciliations from 2002 were performed in late 2003. At the time of our review in May 2004, reconciliations had not been performed since January 2004, as the temporary staff was no longer assigned. Reconciliations of the SDO advance have not been performed since June 2000, even though a theft of these funds was identified in January 2002. We identified the following with respect to the prior shortage and theft:

- As of May 2004, the prior SDO checking account was not closed.
- Agency revenue of \$10,000 was used to open the new checking account in 2002, and has not been returned.
- The total bond proceeds to cover the theft of SDO funds, of \$52,354.71, were deposited into the SDO bank account. However, the full amount was not owed to the checking account, as the theft included fraudulent reimbursements to the checking account. We calculated that at March 2002, \$8,073.71 was necessary to balance the checking account, leaving \$44,281 of bond proceeds owed to the state.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. At all times, the unreimbursed disbursements plus any advances to office cash or subsidiary checking accounts plus the SDO checking account balance must equal the local purchase advance. (Accounting and Uniform Compliance Guidelines Manual, Chapter 7)

The Special Disbursing Officer is accountable at all times for all sums advanced. The SDO officer may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual, Chapter 7)

[BMV Response:](#) The BMVC has contracted with the financial advisor firm Crowe Chizek to assist on reconciling these accounts and create procedures to ensure monthly reconciliations are conducted.

FINANCIAL REPORTING TO COMMISSION

Indiana Code 9-15-2-1 (4) requires the Commission to: "Review, revise, adopt, and submit to the budget agency budget proposals for the commission, the bureau, and the license branches operated under IC 9-16, including the budget required by IC 9-16-3-3." Indiana code 9-14-2-1 (4) also requires the Bureau to "Submit to the commission, before September 1 of each year, budget proposals for the bureau, including license branches staffed by employees of the commission under IC 9-16." However, the budgets are not submitted to the Commission for approval.

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[BMV Response:](#) We concur with the SBA findings and will take necessary action to correct. The Bureau is also researching statute to gain a better understanding of the Commissions role in budgeting and fund accounting.

INTERNAL CONTROL OVER LICENSE BRANCH DEPOSITS

The Bureau of Motor Vehicles Commission does not have procedures in place to detect missing deposits from its accounts, or shortages in branch accounts in a timely manner. Central office procedures are only established to identify this on an annual basis, upon audit, and rely upon license branch managers to identify errors prior to that.

Procedures are not in place to detect missing license branch transfers to the central office in a timely manner. Daily bank information appears designed to indicate those branches with no deposits. However, this is not reviewed or questioned. Also, there is no financial analysis performed in order to identify or question reduced deposits.

There is no review or comparison to verify the accurate receipt of bank transfers that are conducted through a bank subcontractor. License branches contact a bank subcontractor with their batch totals to transfer to each of four state bank accounts. The subcontractor then communicates these bank transfers to the state's bank. Each day, the subcontractor's transaction reports are available for BMV to download. The internal audit section periodically downloads the reports into a data base. The subcontractor information, however, is not compared to the actual bank deposits.

On a monthly basis, the deposit data base information is compared to the batch invoices that have been received and accepted by the central office. We were informed that the program has a logic flaw in that it is only searching for the deposited batch information, and will not identify a batch that had no deposit. The monthly comparisons also do not provide assurance that all batch invoices submitted by the license branches were received and accepted by the operations units. The comparison performed produces variance reports. These are not reviewed by finance or internal audit, but are made available for license branch managers to use. At times, these monthly reports were not made available to managers until three to four months later.

We were unable to verify deposits for March 2003. Deposit information for March and April 2003 was not downloaded in a timely manner. As a result, an alternative source had to be used and data base information remains incomplete or inaccurate for the period March 11 to April 17, 2003.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

[BMV Response:](#) Financial operations has recommended centralizing the reconciliation process, which will include monitoring daily deposits. This can be achieved by creating two positions under the treasury section to oversee this process to include monthly bank reconciliations for all branches. These employees will ensure accurate reconciliations and also act as trouble shooters for branches having difficulty balancing. BMV Finance is already in the process of setting up internet viewing of banking activity that will give us a daily picture of bank deposits and transfers.

LICENSE BRANCH INVENTORY

License branches maintain inventory of items for sale, such as license plates and renewal stickers. Procedures were not in place to detect inventory shortages or discrepancies in a timely manner. The branch operating system (BOSS) does not maintain perpetual inventory records, in order to identify balances that should be on hand. A monthly branch inventory is to be taken; however, there is no information to compare it to.

Each agency, department, institution or office should have internal controls in effect which provide

reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

BMV Response: Along with a written training program from the trainers of Employee Development, Field Operations will develop a specific sign-out sheet as a standard form, along with the files to be set up out front with the plates. The new branch operating system known as STARS should address this issue with its plate ordering and tracking module. STARS can generate an up-to-the-minute inventory list of all plates assigned to the branch. It is anticipated that the system will be implemented in all branches by the end of 2005.

CONTROL OF UNDISTRIBUTED BALANCES

The license branches transfer their collections to three state accounts: the county bank account authorized by IC 6-6-5-9, the watercraft and state holding fund/center accounts. Later, various computer system reports are run in order to distribute the funds to the counties, or to transfer the watercraft and state funds to the proper state funds. The balances held in the state holding, watercraft holding and county bank account are not compared to the subsidiary records in the system. As such, a shortage would go undetected. Reports or information necessary to facilitate such a comparison have never been prepared.

Each agency is responsible for maintaining an effective and accurate accounting system for subsidiary and supplementary records. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. If reconciled bank or Auditor's balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

BMV Response: This will be addressed by centralizing the reconciliation process in BMV Finance as discussed under INTERNAL CONTROL OVER LICENSE BRANCH DEPOSITS. We believe the Branch Financials Sub-Menu within the new STARS operating system will provide much needed functionality in key accounting processes utilized at the license branches. It was specifically designed to tie back transfers out to the subsidiary records and reports. Shortages should be held to a minimum and will be detected before the final day's trial balance is printed.

RECORDS OF BANK ACCOUNTS HELD

The BMV central office did not maintain a complete listing or records of the central office bank accounts, or a list of the branch bank accounts. A list was developed in 2004 at the request of a contracted CPA firm. During our review, we found two open bank accounts that were omitted from the list. Copies of signatory cards for the accounts were not available. Records of bank accounts established should include a comprehensive history list, and maintenance of bank agreements and signatory authorizations.

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

BMV Response: We concur with the SBA findings and will take necessary action to correct.

BAD CHECK FUND

A checking and investment account is maintained by the central office in order to process and collect for checks that were returned to license branch accounts as insufficient funds. The account is entitled check reimbursement fund account, or commonly referred to as the bad check fund. We found conditions of weak controls and a lack of accountability and safeguarding of funds. By March 2004, a balance had accumulated in the account of \$2.5 million. While transaction activity was occasionally reported to the Commission, the balance held was not reported.

The account balance accumulated from bad check fees collected that are not reported or remitted to the Treasurer or Auditor of State. The process is described as follows: Checks returned to license branch accounts as insufficient funds are replaced by the branches by writing a check from the bad check fund. Branches throughout the state have supplies of the bearer paper (checks that do not require a signature). The bad check information is then forwarded to the central office for their collection. If the central office does not recover the bad check amount, plus fees, the license and transactions are suspended. Reinstatement fees collected are remitted to the state treasury. The central office collections of bad check fees are retained in the account. The account balance is used to cover for the uncollected bad checks. These transactions are not accounted for in the official records of the agency, as maintained on the state accounting system.

The account was not considered as safeguarded since the check stock does not require signatures, and the account had no dollar limit in place for the use of a check. Also, the central office check stock supply was stored in an unlocked cabinet.

Indiana Code 5-13-6-1(b) states in part: ". . . all public funds . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

BMV Response: We concur with the SBA findings. In July of 2004 the Commission hired the accounting firm of PTW to assist in the reconciliation of this account. PTW prepared a summary of the daily deposit amounts along with a comparison of the amounts from the daily transmittal files. Differences between the two amounts for each day were noted. They worked backwards from April 2001 selecting the last month of each year to review monthly deposits versus checks, withdrawals or transfers out of the account. This helped us to identify when the large account balance (approximately \$2.6 million at 5/28/04) began to accumulate. The Bureau did fill the administrative accountant position that has been left vacant at the facility because of an employee absence due to FMLA. We are also adding two to three full time positions to the Treasury Department to monitor all cash accounts for compliance to State Board of Accounts Rules and Procedures.

FUNDS OWED TO STATE FROM COUNTY ACCOUNT

County excise taxes collected by license branches are deposited into a separate bank account, administered by the Bureau of Motor Vehicles, in accordance with IC 6-6-5-9. Refunds of excise taxes are issued from the Bureau of Motor Vehicles fund/center 3010/123500. Subsequently, checks are issued from the county bank account to reimburse the Bureau of Motor Vehicles. In May 2004, we found that \$5,085,491 was owed to the state account, as the refunds were not repaid for the period January 1, 2003 to April 30, 2004. Subsequent to our inquiry, \$ 3,415,837 was paid to the state account on May 20, 2004. The balance was paid on July 7, 2004.

Indiana code 4-10-11-3 states: "In the accounting for moneys expended, the items of the appropriation act shall be literally followed and in no case shall moneys appropriated for one (1) specific

purpose be diverted for the purposes of another." The Bureau's fund/center should be reimbursed in a timely manner in order to accurately report the balance of the fund.

The agency has the responsibility for recording and submitting documents prepared as input to the Auditor of State's accounting system. The proper utilization of the state system includes the objectives of: timely submission of documents; proper classification of the transaction; recording of accurate amounts; and verification of correct posting to reports. (State Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

[BMV Response:](#) We concur with the SBA findings.

BANK ACCOUNT RECONCILIATIONS AND STATEMENTS

Bank reconciliations for the five central treasury depository bank accounts are not formally documented. The accounts are maintained for the county excise, state, watercraft and commission holding accounts, and a transfer adjustment account. For the five bank accounts, 26 bank statements were missing for the 20 months reviewed. BMV obtained copies of these statements at our request.

Another bank account maintained for the bad check fund, had not been reconciled since August 2003 at the time of our review in March 2004.

For funds outside the state's system, the governmental unit must maintain appropriate accounting records and controls. This includes performing monthly bank statement reconciliations. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

Documents should be retained in accordance with a retention schedule approved by the Oversight Commission on Public Records. Also, documents must be filed in such a manner as to be readily retrievable or otherwise reasonably attainable, upon request, during an audit. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

[BMV Response:](#) We concur with the SBA findings and are taking necessary action to correct.

INTERNAL CONTROL OVER CONTRACT PAYMENTS

Our prior report (B19250) included findings of disbursement internal control weaknesses for not having a payment approval process in place to ensure payments are reviewed by the responsible agency official prior to payment by the Auditor's office, and that there were insufficient segregation of duties between preparing claims, and receiving and mailing warrants to vendors for payments they initiated.

During our review we also noted the following conditions concerning the controls over the receipting, disbursing, recording, and accounting for financial activities of the Bureau of Motor Vehicles Commission:

1) Duties were not sufficiently segregated between the ordering and receipt of goods or services. The same staff had access to ordering goods and services, and indicating the receipt or internal approval to pay vendor invoices. While this condition existed, contract information was limited as the accounts payable section was not provided with copies of contracts.

2) Duties were not sufficiently segregated in the accounts payable section, as the same staff had duties of preparing claim vouchers, posting agency records of payments issued, and until January 2004, had access to use the Controller's signature stamp to formally approve payment of the claim vouchers. They also then received and mailed the warrants to vendors for the payments they initiated.

3) Staff prepared state claim payments without vendor invoices for certain types of contracts, such as rent and contracted branch operations. This occurred even though the staff was not provided

with contract copies.

4) The Bureau of Motor Vehicles accounting records of payments issued were not in balance with the official records of the disbursements issued by the Auditor of State. As such, errors or irregularities would not have been detected in the normal course of business.

5) There were no written procedures or evidence as to verifications performed in order to approve contract payments. Such procedures would include: comparing invoiced rates to the contract rates; evidencing a certification of receipt of goods or services by the staff with direct knowledge and responsibility; verifying mathematical accuracy of the vendor invoice; checking agency records of processed claims to ensure it was not previously paid, and verifying that the total contract payment would not exceed the maximum allowed by the contract. A checklist form would serve to evidence such procedures.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

Each agency is responsible for maintaining an effective and accurate accounting system for subsidiary and supplementary records. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. If reconciled bank or Auditor's balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

[BMV Response:](#) We concur with the SBA findings. We have obtained the rights to FSSA's Contract Management System, which will be implemented in January 2005. This system will ensure the accuracy of contract disbursements as well as revenue generated from contracted vendors.

CONTRACT OVERPAYMENT

We found that a lease was overpaid by \$10,364 in January 2003. This was a duplicate payment of a months rent and retroactive increases for remodeling. The claim was calculated by staff without requiring vendor invoices. BMV contacted the lessor who issued a repayment. (See Summary, page)

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

[BMV Response:](#) We concur with the SBA findings.

DISBURSEMENT DOCUMENTATION

Several disbursements were observed which did not contain adequate supporting documentation. Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established. The findings are described below:

- Twenty one of twenty two contract disbursements reviewed were not evidenced as approved for payment. It had been a practice to only apply the authorized signature to the top claim in a batch. Also, the agency copies retained were made prior to applying the approval signature.

- Twelve of twenty two contract disbursements reviewed did not contain evidence that the goods or services were received.

- One of twenty two contract disbursements reviewed did not have documentation. The payment issued was for \$ 20,612.47.

- One contract of twenty three selected for review was not provided.

- We could not ascertain if payments were made consistent with the terms of two contracts as supporting records were not retained for audit. These were for credit card volume charges and postage machine rentals that referenced prices per an October 2000 catalog that was not documented.

- During the fiscal year ended June 30, 2003, there were no contracts or purchase orders in place for three contractors that were paid for license branch security and floor mat cleaning. The security cost for that year is estimated at \$34,000. A contract with that firm was entered into as of November 1, 2003. The commission contracted one vendor for statewide floor mat rental and cleaning on June 1, 2004 for \$100,000 annually.

Supporting documentation such as receipts, cancelled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

Indiana Code 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing.

[BMV Response: We concur with the SBA findings. We have obtained the rights to FSSA's Contract Management System, which will be implemented in January 2005. This system will ensure the accuracy of contract disbursements as well as revenue generated from contracted vendors.](#)

PROCUREMENT PROCEDURES

The largest contract of the Bureau of Motor Vehicles Commission is for bank and credit card servicing. Over six million dollars had been disbursed to this vendor during the period July 1, 2002 to March 1, 2004. The contract was first issued based upon a request for proposals in March 1998. This contract, with extensions, expired April 30, 2003. The next contract was signed August 18, 2003, with a new rate structure. The contract was entered into without applying proper procurement procedures.

"The procedural requirements for the procurement of equipment, materials, goods, and services or the lease of equipment shall include the giving of notice and competitive sealed bidding." [140 IAC 8-2-4(a)] Competitive sealed proposals can be obtained "when the commission chairman makes a written determination that the use of competitive sealed bidding is either not practicable or not advantageous to the state" [140 IAC 8-2-4(d) (1)]

"The commission, or its duly authorized procurement agent, hereinafter referred to collectively as purchaser, shall comply with the procedural requirements of this procurement system whenever the total amount of any procurement of equipment, materials, goods, or services exceeds seventy-five thousand dollars (\$75,000), or the total annual rental payment under any equipment lease exceeds twenty-five thousand dollars (\$25,000)." [140 IAC 8-2-3(a)]

[BMV Response: We concur with the SBA findings. We are confident that the Contract Management System will prevent this from occurring again.](#)

TRANSFER BANK ACCOUNT

A transfer bank account was established in order to transfer funds between license branch bank accounts. We observed that this occurred upon opening new license branch bank accounts, to correct errors made in recording state deposits, and to transfer deposits for which the batch processing work was transferred to another branch. A total of \$881,000 was transferred between accounts during the period July 1, 2002 to April 30, 2004.

All duties related to this bank account were performed by one staff member without review. The duties included: performing transfers, entering transfer descriptions as reported on the bank statements, communicating transfers to branch managers, and receiving and reviewing bank statements.

Our review of the bank account disclosed that: requests to initiate transfers do not require a manager's signature; records are incomplete as the actual transfer performed by the bank is not evidenced; requests for transfer could not be located for four transfers made; and no register was maintained of the account transactions or balance.

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual, Chapter 1)

Public records, financial statement information and supporting information generated through a computer system should be printed out on paper, printed to disk or maintained on-line at the end of each reporting year and retained for audit. Information must be maintained in a manner that will allow access for audit and public inquiry on equipment of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual, Chapter 16)

BMV Response: [We concur with the SBA findings.](#)

BUREAU OF MOTOR VEHICLES COMMISSION
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Contract Overpayment, (RC 412120 June 18, 2004), See Page 10	<u>\$ 10,364</u>	<u>\$ 10,364</u>	<u>\$ -</u>